

351.841 Montana Dept. of
H2arc Health and
1992 Environmental
Sciences.
Centralized
Services Division
Audit report

Montana Department of Health and Environmental Sciences

AUDIT REPORT

CONTRACT COMPLIANCE/PERFORMANCE

FISCAL YEAR 1992

STATE DOCUMENTS COLLECTION

SEP 04 1992

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DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES



STAN STEPHENS, GOVERNOR

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STATE OF MONTANA

HELENA, MONTANA 59620

June 1992

Mr. Raymond J. Hoffman, Administrator
Centralized Services Division
Department of Health and
Environmental Sciences
Room C-123, Cogswell Building
Helena, Montana 59620

Dear Mr. Hoffman:

This is my report based on the audit work completed during the contract performance and compliance audit for the fiscal year ending June 30, 1992.

The report contains findings and recommendations as a result of issues identified during the audit. The recommendations are intended to improve controls and general contracting procedures over contracts awarded by the department. Responses by the divisions, bureaus or programs can be found at the end of this report.

Certain conditions in this report are repeat findings from the prior audit period. I have identified the areas in the report that were significantly improved from the prior audit.

I thank department personnel for their cooperation and assistance provided me during the audit.

Respectfully submitted,

Department of Health and
Environmental Sciences

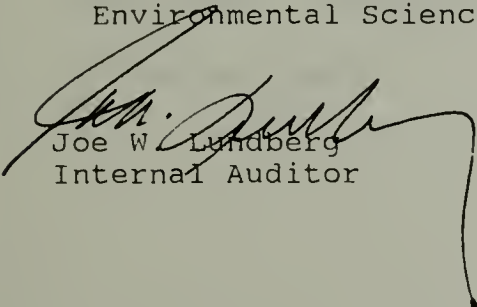

Joe W. Lundberg
Internal Auditor

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INTRODUCTION AND SCOPE:

The Montana Department of Health and Environmental Sciences uses contracts with local governments to provide services to the citizens of the state and to procure a variety of technical assistance for environmental programs. I have performed a routine department-wide contract compliance and performance audit on a sample of contracts that are or were in effect during the fiscal year ending June 30, 1992. The contracts selected for review were determined by considering the following factors:

1. The dollar amount of the contract or the total dollar amount of the individual task orders written under the authority of a general contract.
2. Audit work performed by other auditors such as the local government audit agency and the Legislative Auditor.
3. Past experience with programs and associated problems identified in prior audits.

The Women Infants and Children (WIC) and the Child Nutrition programs were excluded from the prior audit because they have

independent audits performed and/or specific on site program evaluations made by program staff. Brief reviews were made of both of these programs during the current audit period.

My audit work was performed in a manner so as to provide me with sufficient evidence that contracts were being administered according to contract provisions, required deliverables were being provided on a timely basis and controls were sufficient to ensure contract performance.

OBJECTIVES:

The objectives of this audit were to determine the status of recommendations made in the prior audit, review current contracts to identify any problems that may surface and make recommendations to management for improvement in the department's contracting operations.

This report contains findings and recommendations as a result of my audit work in the department. Findings will be presented by program or contract. Recommendations made, will be applicable to the entire department unless they are unique to an individual program or contract. This report is for the internal use of the

Montana Department of Health and Environmental Sciences management and program staff. This restriction is not intended to limit the distribution of this report which, when issued is a matter of public record.

FINDINGS AND RECOMMENDATIONS

AIDS PROGRAM

The AIDS Program has contracts with several pharmacies in the state to provide financial assistance in the form of free prescription drugs for AIDS patients that qualify for such assistance. A contract with the Missoula Clinic Pharmacy was written for \$7,500.00. Payments to the pharmacy between August 8, 1991 and March 16, 1992 totalled \$7,566.33 resulting in payments exceeding the authorized amount by \$66.33. This appears to have been the result of a lack of adequate contract monitoring by the AIDS Program staff.

Section III of the contracts provides that the DHES may unilaterally modify the maximum amount of funding available in the agreement. Because of this language, the program staff wrote

a memo to the Support Services Bureau requesting the encumbrance for the Missoula Clinic Pharmacy be increased by \$3,000.00 and the Western Drug Pharmacy be reduced by a like amount. This was done to cover additional expenses incurred by the Missoula Pharmacy. Letters to the pharmacies were sent advising them of the program's action.

Section VIII of the contracts provides that no changes to the contracts may be made unless agreed to in writing by both parties. The provisions in sections III and VIII are conflicting.

When changes are made, both parties should agree to the change(s) in writing. If they do not agree in writing, controls over contracts are weakened and leave the department in a position for potential lawsuit should any of the contractors later dispute the change(s). In this case, when the encumbrance of the Western Drug was reduced, they could have come back to the AIDS Program requesting reimbursement for the full amount of the original contract, denying any knowledge of the unilateral contract change.

RECOMMENDATION # 1

I RECOMMEND THE AIDS PROGRAM STAFF MONITOR
THEIR CONTRACTS MORE CLOSELY TO PREVENT
CONTRACT OVERPAYMENT.

I ALSO RECOMMEND ALL DHES PERSONNEL THAT USE CONTRACTS IN CONNECTION WITH THEIR PROGRAMS, CONSULT AS NECESSARY WITH THE CONTRACTS OFFICER AND LEGAL STAFF TO ENSURE THAT CONFLICTING LANGUAGE IS ELIMINATED FROM CONTRACTS.

During my audit work in the AIDS Program, it came to my attention that a contractor was requesting additional reimbursement for expenses they said they had incurred. This request was made eight months after the expiration of the contract. After I reviewed the expenses reimbursed to date, the original budget and the revised expenditure reports, I felt that additional explanation of the revised reports was needed. In an interim audit communication, I requested the AIDS Program obtain support documentation for the additional reimbursement.

The response from the contractor indicated that some of the expense reimbursements requested had not actually been incurred and those that had, were incurred after the expiration of the contract on July 31, 1991. The contractor had made a request to carry over funds from the prior contract period into the current contract period. No official response from the program staff was received by the contractor. Verbal communication with the contractor had indicated the carryover was OK.

Since the contract had expired, there was no authority to spend the unobligated funds. IF the carryover was approved, a new contract would have to be prepared specifying the amount of funds authorized and what they could be used for.

RECOMMENDATION #2

UNLESS THE EXPENSES ARE INCURRED OR FUNDS OBLIGATED WITHIN THE PERFORMANCE PERIOD OF THE CONTRACT, REIMBURSEMENTS ARE NOT ALLOWABLE. IF A PROGRAM WISHES TO AUTHORIZE UNOBLIGATED FUNDS TO BE SPENT, A FORMAL CONTRACT MODIFICATION MUST BE MADE. IN THIS CASE, THE AIDS PROGRAM SHOULD HAVE MADE A MORE TIMELY RESPONSE TO THE CONTRACTOR'S REQUEST.

One of the contracts administered by the AIDS Program requires program staff to provide written comments on the contractor's narrative reports. During my review of the file, I noted that the program had failed to comply with the contract requirement. If this is necessary in order for the contractor to improve the services required of the contractor, then the program should provide the written comments. If not, then the requirement should not be in the contract.

RECOMMENDATION #3

I RECOMMEND THE AIDS PROGRAM COMPLY WITH REQUIREMENTS IN ITS CONTRACTS. IF REQUIREMENTS ARE NOT NECESSARY, THEY SHOULD NOT BE IN THE CONTRACT.

The AIDS Program contracts with local governments allow the counties to submit expenditure reports at least quarterly but not more frequently than monthly. Butte/Silver Bow has elected to report on a monthly basis. My review of Butte's file revealed the following untimely reporting:

<u>REPORT MONTH</u>	<u>DATE RECEIVED</u>
December 31, 1991	March 11, 1992
January 31, 1992	May 8, 1992
February 28, 1992	April 24, 1992

The contract requires quarterly activity reports. I was not able to find evidence of reports covering the months of November and December 1991 from Butte/Silver Bow Unified Government.

In the prior audit I noted that invoices were not being paid in a manner consistent with the contract or in compliance with the state's Prompt Payment Act, 17-8-242, MCA. One of the invoices reviewed was for the Month ending December 31, 1991. It was not signed by the county until February 24, 1992. It was received by the AIDS Program on March 11, 1992 and not approved for payment until April 29, 1992. I also noted two invoices signed by the county on October 31, 1991, that were not approved by the AIDS program until January 13, 1992.

RECOMMENDATION #4

I RECOMMEND THE AIDS PROGRAM IMPROVE THEIR CONTRACT MONITORING PROCEDURES TO ENSURE THAT REQUIRED REPORTS ARE RECEIVED IN A TIMELY MANNER. I ALSO RECOMMEND THAT THEY PROCESS INVOICES CONSISTENT WITH THE CONTRACT PROVISIONS AND STATE LAW.

MCH BLOCK GRANT

During the prior audit I noted problems with the contracts administered under the MCH Block Grant Program. The problems involved the release of payments prior to the receipt of required reports and errors in the financial sections of the reports.

I reviewed six county files containing MCH reports. During my review of the files I noted no instances of payments being released prior to the receipt of the required reports. I performed a financial reconciliation for the six counties through the end of the third quarter. The reconciliations revealed that 3 of the 6 counties' financial reports contained mathematical errors. In one instance, the county reported a block grant fund balance of <\$1,129.20> when in fact the correct balance appeared to have been \$274.80.

If this had been the end of the fiscal year and the \$274.80 had not been spent or encumbered, that amount would have been

required to be returned to the DHES by August 31, 1992. Under the circumstances, the program would not have been able to see that there was a balance owing to the department.

RECOMMENDATION #5

AS I RECOMMENDED IN THE PRIOR AUDIT, I AGAIN RECOMMEND THAT THE MCH BLOCK GRANT PROGRAM DEVELOP A SYSTEM THAT WILL DETECT MATHEMATICAL ERRORS IN THE FINANCIAL REPORTS. THE INTERNAL AUDIT OFFICE HAS A LOTUS PROGRAM THAT WILL ASSIST THE PROGRAM WITH THIS RECOMMENDATION.

PRIMARY CARE CONTRACT

The Health Planning Bureau has a contract with Montana State University to assist the DHES meet the objectives of the Primary Care Cooperative Agreement with the Department of Health and Human Services. The contract requires narrative and expenditure reports to be submitted within 15 days after the end of each quarter. My review of the contract file indicated the expenditure report had been submitted and paid. The narrative report that was due April 15, 1992 had not been received as of

May 27, 1992. Payment of the invoice prior to the receipt of contract deliverables weakens controls and could place the program in a position not having any leverage to enforce performance.

RECOMMENDATION #6

I RECOMMEND NOT PROCESSING INVOICES FOR PAYMENT UNTIL THE REQUIRED DELIVERABLES FOR THE INVOICE PERIOD HAVE BEEN RECEIVED AND ACCEPTED. THIS RECOMMENDATION IS APPLICABLE TO THE ENTIRE DEPARTMENT.

HANDICAPPED CHILDREN PROGRAM

The Handicapped Children Program has a contract with Eastern Montana College to provide specialty clinics to Montana handicapped children. Section V of the contract prohibits any subcontracting or assignment of any part of the agreement without prior approval of the DHES.

During my review of the contract files, I noted a request had been made by the college to transfer \$29,500.00 from personal services to contracted services. In the letter from the college to the program they said "increasingly, the team consists of contracted personnel rather than full-time state employees." I

inquired of program staff the nature of the contracted services. She said they were contracting with a psychiatrist. I asked if there was an approved subcontract and was told there was not. Since there is no approved subcontracts, I question all subcontracted costs incurred through April 30, 1992 of \$30,670.

Besides violating the terms of the contract, the program has no way of telling what the psychiatrist is being paid or what function he/she is performing. Without an approved subcontract, the program may be reimbursing costs that are not allowable in the grant agreement.

RECOMMENDATION #7

I RECOMMEND THE PROGRAM COMPLY WITH THE PROVISIONS OF THE CONTRACT. THIS RECOMMENDATION APPLIES TO THE ENTIRE DEPARTMENT.

MONTANA PERINATAL PROGRAM

During my work in the Montana Perinatal Program, I noted two counties that were not completing the financial report properly or the reports were not complete. The contract requires an accounting of funds from all sources spent in operating the program. This includes county funds. This information is needed

by the program to determine actual costs for the total program and is used when applying for new or additional grant funds from the federal government.

RECOMMENDATION #8

I RECOMMEND THE PERINATAL PROGRAM RETURN ANY IMPROPERLY OR INCOMPLETE EXPENDITURE REPORTS TO THE COUNTIES REQUESTING THE DEFICIENCIES BE CORRECTED AND WITHHOLD PAYMENT UNTIL THE REPORTS ARE SATISFACTORY.

EMERGENCY MEDICAL SERVICES BUREAU

During the prior audit I noted that the Bureau's contract with the city and county of Denver, Rocky Mountain Poison Control Center was not written to require reports to be received prior to making payments. I also noted that payments were being made quarterly when the contract specified monthly payment.

I reviewed the current year contract file and found the deficiencies identified in the prior audit had been corrected. No other issues surfaced as a result of my audit work.

SUPERFUND PROGRAM---STATE LIBRARY CONTRACT

I noted several problems in the prior audit with the Superfund Program's State Library contract that required corrective action.

I prepared a management letter to the State Librarian that identified the issues and made suggestions as to how they could be corrected. During the current audit period I reviewed the issues with State Library personnel and determined the issues had been adequately addressed.

My review of records for the current audit period revealed a violation of the contract regarding salary rates. The contract provides that salary rates included in the contract can be adjusted to accommodate promotions and adjustments made to the state pay plan. Such adjustments must be made through negotiations with the DHES and a modification made to the contract authorizing the new rates.

I compared the salary rates for seven library employees on the calculated payroll for the pay period ending March 20, 1992 with the authorized rates in the contract. Four of the seven employees rates reviewed did not agree with those authorized in the contract. In one instance, the rate was \$1.14 per hour more than was authorized in the contract. The Library can pay the rates the employees they were being paid but they must follow contractual provisions to change rates.

RECOMMENDATION #9

I RECOMMEND THE SUPERFUND PERSONNEL WORK WITH THE STATE LIBRARY TO RENEGOTIATE SALARY RATES AS NECESSARY TO COMPLY WITH THE CONTRACT.

SOLID AND HAZARDOUS WASTE BUREAU---SOLID WASTE PROGRAM

The Solid Waste program had two contracts to assist with the evaluation of solid waste management applications. During my review of the files for the Tetra Tech contract, I noted there were several contracts in one file. The records for the contracts were in a general state of disarray. Work deliverables could not be readily found. Unrelated documents were found in the file such as Superfund contract drafts and task orders.

During my review of invoices, I found that work was being charged to contracts that had already expired. An invoice dated March 30, 1992 had been billed to a contract that expired June 30, 1991. The work billed had been completed between January 27, 1992 and January 31, 1992. This should have been billed against contract number 220051 not 210068.

Contract number 210068 was written for \$50,000 but the total amount billed against this contract was \$68,884.76. The fact

that work was billed to an expired contract makes it appear as though there was a cost over run of \$18,884.76.

RECOMMENDATION #10

THE ISSUES PRESENTED ABOVE ARE REPRESENTATIVE OF POOR CONTRACT MONITORING. I RECOMMEND THE SOLID WASTE PROGRAM DEVELOP A STANDARD SYSTEM OF CONTRACT MONITORING. SUCH A SYSTEM WILL INCLUDE A FILING SYSTEM THAT WILL PREVENT DOCUMENT LOSS, PROVIDE PROCEDURES FOR PROCESSING INVOICES AND ENSURING THAT DELIVERABLES ARE RECEIVED BEFORE PAYING THE CONTRACTOR FOR THE WORK. EACH CONTRACT SHOULD HAVE A SEPARATE FILE AND ALL FILES SHOULD BE MAINTAINED IN A CENTRAL FILING SYSTEM WITH PROCEDURES TO CHECK OUT RECORDS.

SOLID WASTE PROGRAM---CONTRACTOR'S LABOR COSTS

During my review of invoices from Tetra Tech, Inc. I noticed a large amount of labor costs billed for the period of May 25, 1990 to June 30, 1990. I questioned the amount because it appeared to be excessive when I made a comparison of charges with other months. My comparison revealed that the costs incurred during May and June 1990 were nearly \$6,000 more than the total costs incurred between September 24, 1990 and May 26, 1991.

Because of the large difference, I requested Tetra Tech provide me with copies of all time sheets for the employees that

performed work during May and June 1990. I traced the invoiced labor hours to the time sheets and found the labor hours billed agreed to the hours reported on the employees' time sheets. No recommendation is necessary.

The Solid Waste Program had a contract with PRC Environmental Management, Inc. to provide services similar to those provided by Tetra Tech previously described. During my review of the PRC file I noted at least six invoices had been submitted for payment yet only two were in the file. The first four invoices that were submitted could not be located. These documents are attached to the transfer warrant claim when processed for payment. The program should maintain copies of all invoices for the purposes of financial monitoring and contract management.

RECOMMENDATION #11

I RECOMMEND THE SOLID WASTE PROGRAM MAINTAIN COMPLETE FILES INCLUDING COPIES OF CONTRACTORS' INVOICES FOR THE PURPOSES OF EFFECTIVE CONTRACT MONITORING AND MANAGEMENT.

I compared rates authorized in the PRC contract with those billed on the two invoices I was able to locate. My comparison revealed on employee classified as a "P1" with a rate of \$26.00 per hour

in the contract was being billed as a "P2" that has a rate of \$37.00 per hour. Proper contract monitoring procedures would have been detected this discrepancy. From the information available in the file, it appears that there was an overcharge of \$66.00.

RECOMMENDATION #12

I RECOMMEND THE SOLID WASTE PROGRAM DEVELOP AND IMPLEMENT A WRITTEN PROCEDURE FOR CONTRACT MONITORING AND INVOICE REVIEW.

SOLID WASTE PROGRAM---RECEIPT OF DELIVERABLES

During testing of contract deliverables from Tetra Tech, I noted that reports and other contract deliverables were not in the files. When I inquired of personnel where the reports were kept, no one was readily aware of the location of the documents. After considerable searching, an employee generated some documents from a computer disc.

From discussions with personnel, I found that Tetra Tech was allowed to provide the deliverables on disc. This procedure allowed the program to make changes in reports provided by the contractor. The reports were in the form of letters to the solid

waste applicants informing them of the status of their respective applications. Most of the reports of work provided during the audit were not on the contractor's letterhead nor were the documents dated.

Because of the incompleteness of the files, it was not possible to determine which reports were completed under which contract. If dates had been included on the reports, it would have been possible to determine if all deliverables required under each of the contracts had been provided by the contract. The conditions previously described represent very weak controls and could mean the program paid the contractor for work that was not done. These conditions result from poor contract management. Since previous recommendations have been made that address contract monitoring and management no additional recommendation for this issue is warranted.

UNDERGROUND STORAGE TANK PROGRAM

Contracts administered by the Under Ground Storage Tank Program require that invoices be submitted 15 calendar days after the end of the month being billed. During the review of invoices from one contractor I noted some invoices were being submitted two and one half months after the month being billed.

The contract requires that travel costs be explained as to the number of trips, the destination, the cost of each trip and the total cost of all travel. The contractor is not meeting these requirements.

RECOMMENDATION #12

I RECOMMEND THE PROGRAM RETURN INVOICES FROM CONTRACTORS THAT DO NOT COMPLY WITH CONTRACT REQUIREMENTS AND REQUEST THEM TO CORRECT THE DEFICIENCIES.

During the prior audit I noted that two contractors were not complying with a requirement to provide the program with monthly task order status reports. I reviewed the two files for the reports during this audit period and found that one of the contractor had started to provide the reports after being notified of the requirement by the project officer. The other contractor had only provided one report dated December 18, 1991. These reports are a good monitoring tool and should be required.

RECOMMENDATION #13

I RECOMMEND THE PROGRAM STAFF REQUIRE ALL CONTRACTORS TO PROVIDE THE MONTHLY TASK ORDER STATUS REPORTS IN ACCORDANCE WITH CONTRACT PROVISIONS.

LUST---EXPIRED TASK ORDERS

I reviewed several task orders to determine if the work had been completed in accordance with the conditions of the task order. Task Order #5 at the Lavina site expired on June 30, 1991. There were no documents noted in the file to indicate the performance period of the task order had been extended. The report that was to be provided by June 30, 1991 was noted in the file and had a March 1992 date on the text. The document had not been date stamped in, so it was not possible to determine the actual date the report was received.

RECOMMENDATION #14

I RECOMMEND THE TANK PROGRAM STAFF REVIEW TASK ORDERS TO DETERMINE IF THE WORK AUTHORIZED IN THE TASK ORDER CAN BE COMPLETED WITHIN THE PERFORMANCE PERIOD. IF IT CANNOT, THEN THE PROJECT OFFICER SHOULD REQUEST A MODIFICATION TO EXTEND THE PERFORMANCE PERIOD.

LUST---COLUMBIA FALLS SITE

Task order #6 under a contract with Chen-Northern, Inc. expired on November 30, 1991. A modification to the task order to extend the performance period to January 15, 1992 was made but it was

not signed until January 6, 1992. Correctly done, the modification should have been prepared and signed prior to November 30, 1991.

RECOMMENDATION #15

I RECOMMEND THE PROGRAM STAFF MAKE MODIFICATIONS TO CONTRACTS/TASK ORDERS PRIOR TO THE TIME THEY EXPIRE TO PREVENT THE COMPLETION OF WORK WITHOUT WRITTEN AUTHORIZATION. THIS RECOMMENDATION IS APPLICABLE TO THE ENTIRE DEPARTMENT.

WATER QUALITY BUREAU---GALLATIN CONSERVATION DISTRICT CONTRACT

This contract requires periodic reports of progress and reports of expenses incurred during the reporting period. The first report was due January 31, 1992 but was not received until February 24, 1992. The contract was not prepared in a manner so that the release of payments is tied to the receipt of required reports. All payments associated with this contract are made on the basis of advances. This practice weakens controls over performance and represents poor cash management practices.

RECOMMENDATION #16

I RECOMMEND THAT ALL CONTRACTS BE PREPARED SO THAT PAYMENTS ARE NOT MADE UNTIL PROGRESS AND

EXPENSE REPORTS ARE RECEIVED. IF AN ADVANCE IS REQUIRED, A ONE-TIME ADVANCE IS ALLOWABLE AS LONG AS IT IS PROPERLY ACCOUNTED FOR IN FINANCIAL REPORTS.

WATER QUALITY BUREAU---CLEAN LAKES FLATHEAD LAKE CONTRACT

During my audit work in the bureau, I noted a contract with the University of Montana did not have any provision for charging indirect costs. A review of an invoice revealed indirect costs had been billed and paid. The project officer requested a modification to the contract to allow for indirect costs that are in compliance with policy of the Commissioner of Higher Education. Since the contract was changed to allow indirect costs no recommendation is necessary specifically relating to this contract.

Unless specifically provided for in a contract, indirect costs may not be billed. If department personnel are going to pay indirect costs of contractors, then each contract must define indirect costs and provide a rate in the contract. There should be documentation to support how the rate was calculated. This documentation should be provided to the contracts officer BEFORE the contract is drafted.

RECOMMENDATION #17

I RECOMMEND ALL DHES PERSONNEL INVOLVED IN THE USE OF CONTRACTS IN THEIR PROGRAMS CONTACT THE CONTRACTS OFFICER REGARDING

**CONTRACT LANGUAGE AND PROPER TREATMENT OF
INDIRECT COSTS IN CONTRACTS.**

AIR QUALITY BUREAU---PRIOR AUDIT ISSUES

During the prior audit, I noted several matters that required corrective action. The matters involved the failure of contractors to provide required reports and certain contract language that had been omitted from some contracts.

I reviewed the files of counties that receive air quality assistance funds to determine if required contract language regarding audits had been included in the contracts and the required reports have been received. From my review, it appears that the issues identified in the prior audit have been adequately addressed.

DEPARTMENTAL CONCERNS AND RECOMMENDATIONS

Based on my audit work throughout the department, there appears to be a lack of understanding of good contracting procedures and requirements for contract administration. For example, frequently, payments on contracts are made based solely on a

advance basis and there are no written requirements to tie the payments to receipt of reports and/or expense reports. When ever possible payments should be contingent upon the receipt of some type of deliverable. This improves the department's control over performance by the contractor.

The department now has a contracts officer. This position will be a good resource for people preparing contracts. During the audit I found there was a lack of consistency in contract language that should be standard in all contracts.

RECOMMENDATION #18

I RECOMMEND THAT ALL DEPARTMENT PERSONNEL CONSULT WITH THE CONTRACTS OFFICER WHEN PREPARING CONTRACTS. I ALSO RECOMMEND THE CONTRACTS OFFICER CONDUCT TRAINING CLASSES FOR PROGRAMS ON CONTRACT PREPARATION AND MANAGEMENT.

The following are some issues that came to my attention during the audit and should be corrected to improve contract management in the department.

1. All documents received, whether in the mail or hand delivered, should be date stamped in.
2. When changes are made on financial reports or invoices, the person making the change should initial the change and provide a brief explanation why the change was made.

3. Filing systems should have controls placed on them to limit access and provide a procedure to check out the records to prevent document loss.

4. Program personnel are responsible for the approval of expenditures. This is not the responsibility of the Support Services Bureau. The bureau only processes payments authorized by the programs. Program personnel should make detailed reviews of invoices to ensure compliance with contract requirements.

Several of the problems noted in the prior audit are still issues in this audit period. Errors are still not being detected in the financial reports of the MCH Block Grant Program. Contract monitoring by program staff at the Solid and Hazardous Waste Bureau has not improved. Problems with reporting and payment of invoices in the AIDS Program have not been corrected since the last audit. The general contract management in the department has not improved since the prior audit.

These problems need corrective action. The conditions that I have reported could place some federal grants in jeopardy if not corrected.

PROGRAM RESPONSES

DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES



STAN STEPHENS, GOVERNOR

COGSWELL BUILDING

STATE OF MONTANA

FAX # (406) 444-2606

HELENA, MONTANA 59620

June 19, 1992

TO: Joe Lundberg

THROUGH: Dale Taliaferro

FROM: Jim Murphy *JM*

REGARDING: Internal Audit- ADRP

Findings and recommendations regarding the ADRP contracts were presented in the internal contract audit. Several items requiring clarification are discussed below. Thank you for the review and providing us with this opportunity to respond.

Point 1:

The audit states that the Missoula Clinic Pharmacy contract was written for \$7,500.00 but that between August 8, 1991 and March 16, 1992 payments totaled \$7,566.33 resulting in overpayment. The audit concludes that this appears to be the result of inadequate monitoring of the contract. However, our records indicate that a transfer of funds, allowed by the contract, was initiated in February and occurred on March 10, 1992 (see attached documentation). Notification of the pharmacies involved took place in January of 1992 along the guidelines specified in the contract. As a result, our records indicate no overpayment took place.

Point 2:

A discussion of sections III and VIII (copies attached) discusses what is perceived as an inconsistency and recommends that we consult more closely with the contracts officer and legal staff when developing contracts. Consultation with legal had taken place during the development of the contract. When this problem was first called to our attention, discussions with Ellie Parker of the legal unit indicated that no conflict was present. However, at the request of Support Services, extra steps were taken to ensure that each pharmacy provide evidence of acknowledging the transfer of funds in writing (copies attached).

Concerns expressed regarding the possibility of a pharmacy requesting reimbursement for the full amount of the original contract are unfounded. Each pharmacy receives payment for only those services which it performed during the contract period. Therefore, a pharmacy which performed \$2,000.00 worth of services could not seek the "up to" \$7,500.00 allowed in the contract.

As an additional measure of protection, pharmacies cannot perform services without our authorization each month so it would not be possible for a pharmacy to spend without our knowledge.

During the performance of this contract, the entire payments to Missoula Clinic Pharmacy totaled \$10,719.85 (supplied by Rose Crocker). This total is \$3,219.85 over the \$7,500.00 set in the contract. A total of \$4,000.00 was transferred (\$3,000.00 on 3/10/92 and \$1,000.00 on 4/28/92) to meet the anticipated needs. The contracts were developed to account for such needs and to provide an efficient means of transferring funds.

Office Memorandum

TO: Joe Lundberg DATE: June 24, 1992
THROUGH: Dale Taliaferro
FROM: Claudia Montagne
Health Educator, AIDS/STD Program
SUBJECT: DRAFT OF AUDIT REPORT FOR SFY92

After reading the draft report, I would like to respond as follows.

Regarding Recommendation #2 for the AIDS Program, the comments are well taken. The initial discussions regarding possible expenditure of unobligated funds occurred at a time when our program fiscal staff was in transition. It was our understanding that the contractor was willing and able to bill for nursing hours logged during the contract period, but not charged to this grant. Instead, they billed for present or future expenditures. We have followed the recommendations of the fiscal staff regarding this matter, and will continue to do so in the future.

Regarding Recommendation #3, it is true that in some instances, due to backlogs of other work, verbal comments on narratives have been given to contractors instead of written comments. It is planned to drop that requirement from our next contracts; however we will continue to provide verbal feedback with one written comment provided for each contract period as an option.

Thank you for your feedback and for soliciting our comments.

MONTANA DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
Health Services Division
Preventive Health Services Bureau

MEMORANDUM

TO: Joe Lundberg

FROM: Bruce Desonia *B. Desonia*
AIDS/STD Program Manager

SUBJECT: DRAFT OF AUDIT REPORT FOR SFY92

DATE: June 27, 1992

The draft that you delivered to me today still does not reflect accurately actions at the program level regarding the Butte/Silver Bow contract, subsequent to my response submitted to you on June 26, 1992.

You still indicate that "the contract [Silver Bow County] requires expenditure reports to be submitted by the tenth day of the month following the month being reported," and that the "contract requires monthly activity reports."

Our CTRPN\HERR contracts require expenditure reports to be filed "at least quarterly and no more often than monthly." No due dates for the above reports are specified in the contract. This change in contracts was to allow counties more flexibility to be reimbursed more frequently, based on their needs. It also separated the financial report from the narrative activity report, because several counties were delaying submitting their activity reports (which the program needs for completing our narrative reports to CDC) until they could complete their financial reports. Counties are reimbursed only for expenditure reports received.

You indicate an invoice received by the program on March 11, 1992 was not approved for payment by the program until April 29, 1992. This was due to the administrative assistant position, vacated by Karen Winden on March 6, not rehired until mid-April, 1992, due to a delay by Centralized Services in recruiting for that position.

The current contracts require "By October 10, 1991; January 10, 1992..." that a "narrative report covering the prior quarter and containing the items..." be reported to DHES. I believe this is the activity reports to which you refer. No financial reimbursement is tied to these reports, but our program policy is that if a narrative (activity) report is delinquent, no expense reports pending will be paid until the required narrative report is received.

You indicate that you were unable to find evidence of activity reports for the months of November and December, 1991. That handwritten report was received from Butte by the AIDS Program on January 14, 1992 and is in the contract file. It was resubmitted on new reporting format in May. Their October activity report was combined with their report for July-September, which was not received until January 8, following communication from Claudia Montagne.

You indicate two invoices, signed by Silver Bow County on October 31, were not signed by the AIDS Program until January 13, 1992. This was following several telephone conversations between Karen Winden and/or Claudia Montagne and Virginia Feters of Butte. The first occurred on November 7, 1991 (and documented in the contract file) and subsequent letter to Butte on November 20 regarding CBO dollar allocation and clarification of reports. Claudia Montagne notified the county on January 3, 1992 that expense reimbursements were being held up pending receipt of the narrative activity reports. Those narratives were submitted per preceding paragraph.


If you have questions or comments about this followup response, please call on Valinda Holmes or myself.


cc: Judy Gedrose
Valinda Holmes
Claudia Montagne
Dale Taliaferro

OFFICE MEMORANDUM

Montana Department of Health and Environmental Sciences

TO: Joe Lundberg, Internal Auditor

THROUGH: Dale Taliaferro, Administrator, Health Services Division 

FROM: Maxine Ferguson, Bureau Chief, Family/MCH Bureau 

DATE: June 29, 1992

RE: Response to Audit

Generally, I concur with the report of the audit performed. We are aware that the math is incorrect on occasion and have notified several counties recently that their math needs improvement before the final report is submitted for FY 92. Some counties are still having problems defining what "block grant balance" means, although definitions of terms were provided to counties prior to their using the new report form. Many procedural checks have been put in place to improve upon the previous system, including monitoring of expenditures and calculation of the required match. The new report form was also reviewed by the internal auditor and the Bureau Chief for Support Services. Their comments and suggestions were incorporated into the report form currently used.

I would be most appreciative of a Lotus program to do tracking. Allen has just completed an introductory Lotus class and should be able to enter data on a regular basis.

DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES



STAN STEPHENS, GOVERNOR

COGSWELL BUILDING

STATE OF MONTANA

FAX # (406) 444-2606

HELENA, MONTANA 59620

Date: June 30, 1992
To: Dale Taliaferro, Administrator
From: Judy Wright, Program Manager, Children's Special Health Services (CSHS)
Subject: Audit Response

July 7
Judy Wright

CSHS will comply with the provisions of the contract with Eastern Montana College, the Montana Center for Handicapped Children.

The expenses that were charged to the "contract" line item for SFY92 were not actually contract expenses but rather reimbursements on a per clinic basis for professional services rendered during the course of the clinics required by the contract. As Eastern is a state agency bound by state purchasing procedures the services were authorized by a state requisition and paid with a state warrant after a signed statement of service was received from the vendor. This is similar to the procedure used by CSHS for authorization and payment of vendor services. These expenses are coded to the 2100 series for SBAS although they are not "contracts" but closer to the code 2116 (medical pays) which CSHS uses for payments.

CSHS questions the finding as the auditor did not examine any of the supporting documentation for claimed expenses. However, as this process will continue during SFY93 due to state accounting and SBAS procedures Eastern will submit a formal request to continue to bill this way and we can formally give them permission. As there is no sub-contract there will be no subcontract to approve. If this is not satisfactory please let me know.

cc: Maxine Ferguson, RN, Bureau Chief

Office Memorandum

STATE DEPARTMENT OF HEALTH
AND ENVIRONMENTAL SCIENCES

6/25/92

To: Joe Lundberg, Auditor
DHES

Through: Maxine Ferguson, Bureau Chief
Family/MCH

ymf

and

Dale Taliaferro, Administrator
Health Services Division

DOT.

Fr: Jo Ann Dotson, Manager *J Dotson*
Montana Perinatal Program

I concur with your audit exception which found that MIAMI projects have not consistently reported local/other funding used in MIAMI project activities. I agree with the recommended action of returning of MIAMI Project Expenditure reports to the project immediately upon receipt if the form is not completed correctly, including the local/other expenditures column.

I will implement that recommendation with the beginning of the 1993 fiscal year contracts.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
SOLID & HAZARDOUS WASTE BUREAU
SUPERFUND PROGRAM
TELEPHONE: (406) 449-4067

JUN 30 1992

MEMORANDUM

TO: Duane Robertson ^{DLR} **DATE:** June 23, 1992
FROM: Karen Zackheim ^{KZ}
SUBJECT: Joe Lundberg's Internal Audit

In accordance with your request for comment on the internal audit of the Superfund contracts; specifically Montana State Library GIS contract.

After reviewing the situation, I have come to the conclusion that the proper action is not to negotiate state employee salary rates but to amend the contract such that all state personnel guidelines must be followed. This action will meet all grant requirements and allows us to escape the bureaucracy and redundancy of one state agency approving another state agency's salary rates. The new contract Jim Madden is presently working on for federal grant work on the GIS System will incorporate new language to alleviate this problem in the future.

KZ/TR/ckp

RECEIVED

JUN 24 1992

MONTANA DEPAR.
AND ENVIRONMENT
SOLID AND HAZARDOUS WASTE

DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES



STAN STEPHENS, GOVERNOR

FAX #(406) 444-1499

STATE OF MONTANA

OFFICE 836 Front Street
LOCATION: Helena, Montana

MAILING Cogswell Building
ADDRESS: Helena, MT 59620

MEMORANDUM

TO: Joe Lundberg

FROM: Jon Dilliard, Solid Waste Program

DATE: June 25, 1992

SUBJECT: Audit responses

Recommendation #10 - The Program concurs with the recommendation. The Solid Waste Program has already revised its procedures for monitoring of contracts. All contracts have separate files located in the Program manager's office. Policy has been established that copies of all deliverables are to be filed in the contract files as well as any other applicable files. Invoices will be reviewed and checked against work products and provisions of the contract by Program staff before sending them to Support Services for payment. Also steps have been taken to correct the billing by Tetra Tech to contract number 2100068 and have the various billings assigned to the correct contract numbers.

Recommendation #11 - The Program concurs with the recommendation. This recommendation has already been implemented as described in the previous response.

Recommendation #12 - The Program concurs with the recommendation. The policy and procedures for contract monitoring and invoice review are in place at this time and will be put into written form in the near future.

Receipt of Deliverables - Copies of all deliverables for all contracts are now filed in the separate contract files in addition to facility files.

Recommendation #18 - The Program concurs with the recommendation. The Program is presently conferring with the Department Contracts Officer prior final development of program contracts. Additionally, we agree that training would be helpful to program personnel in all phases of contract

activity.

Thank you for the opportunity to respond to the audit recommendations. Please do not hesitate to contact me if you have any additional questions.

DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES

Solid and Hazardous Waste Bureau
Underground Storage Tank Program

STAN STEPHENS, GOVERNOR (406) 444-5970

FAX #(406) 444-1499



STATE OF MONTANA

OFFICE 836 Front Street
LOCATION: Helena, Montana

MAILING Cogswell Building
ADDRESS: Helena, MT 59620

M E M O R A N D U M

JUN 26 1992

TO: Joe Lundberg, John Geach
FROM: Ben Mundie, LUST TRUST
RE: Contract Compliance and Performance Audit,
Underground Storage Tank Responses
DATE: June 25, 1992

It was found that a LUST TRUST contractor was submitting invoices for work performed beyond the required 15 day period at the end of the month being billed. This same contractor has experienced recent difficulties in submitting complete and correct invoices. Unfortunately the billing process within this company is arduous at best. Complete and correct invoices that leave the Helena Office must travel to Bellevue, WA then to Pasadena, CA, then to DHES. In the process, documentation is removed, and numbers are shifted around. The invoice submittal difficulties for the LUST TRUST program projects for this company, were not known by the Helena Office personnel until recently. The Helena Office manager contacted the president of the company concerning the problems of invoices. Allegedly appropriate changes have been made.

I concur with Recommendation #12, with one request, that any invoices from TETRA TECH, INC. that do not comply with contract requirements be returned to the Helena Office and not to the Pasadena Office.

It was found that a LUST TRUST contractor was not submitting required monthly Task Order status reports.

I concur with Recommendation #13, that all LUST TRUST contractors provide the monthly Task Order status reports. The offending contractor has been contacted, and assurances have been made that monthly Task Order status reports will be provided.

It was found a LUST TRUST Task Order had expired, and the required summary report had not been submitted prior to the expiration date.

MEMO Lundberg
Compliance Audit
06/25/92
page 2

I concur with Recommendation #14, that LUST TRUST staff closely monitor all Task Orders to insure adequate time remains for the completion of all required aspects of the Task Order.

It was found a Task Order modification, to extend the expiration date, was not completed and signed prior to the expiration of the Task Order.

I concur with Recommendation #15, that LUST TRUST staff closely monitor all Task Orders to insure any required modifications are completed and signed by both parties prior to the Task Order expiration date.

Now that the LUST TRUST Program is fully staffed, oversight of LUST TRUST Task Orders will increase. Three additional LUST TRUST contractors are expected to sign contracts in July 1992. The new contracts will better define the invoice requirements expected of the contractors. The work load will be spread out, allowing contractors sufficient time to complete Task Orders within set timeframes.

I appreciate your help in identifying these areas within the LUST TRUST program requiring attention to conform to contracting procedures.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Office Memorandum

July 1, 1992

TO: Joe Lundberg
Support Services

FROM: Jack Thomas
Water Quality Bureau

SUBJECT: Response - Audit: Gallatin Conservation District

I partially concur with Recommendation #16 pertaining to the above referenced contract. The WQB elected to provide advances to the conservation districts for several of the earlier NPS control projects, Gallatin CD being one. Due to the seasonal nature of the work performed and the possibility that large amount of cash may need to be on hand to pay expenses incurred during that period and the fact that the districts do not have the sufficient cash reserves to pay large invoices from the landowners or contractors, then submit bill to the DHES for payment and wait for reimbursement, we chose to set up our earlier contracts in that manner and then accept interim (quarterly) reports to verify expenditures. This has worked fairly well with the one exception you noted: the possibility of not receiving required reports on time. However, we have had no specific problems. We (NPS staff) are attempting to better track reporting dates to see that the deadlines are complied with more consistently.

Note that virtually all of the newer NPS contracts now provide payment to the districts only upon submission of invoices for services provided. Depending on the contract and how often the district chooses to submit the required invoices, we typically provide payment no more often than monthly for expenses incurred during that month. While this method affords greater control and "better" (?) cash management, it also significantly increases the time needed to administer each contract and consequently, the administrative costs of both the district and DHES. I suspect that we will continue to follow this procedure on future contracts unless an improved system is developed.

Let me know if you have further concerns or other suggestions for improvement.

c: Loren Bahls, WQB
Dan Fraser, WQB
Steve Pilcher, ESD

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Office Memorandum

July 1, 1992

TO: Joe Lundberg, Internal Auditor
FROM: Loren Bahls, Water Quality Bureau *LB*
SUBJECT: Response to Contracts Audit Report--Flathead Lake Indirect

Since the Flathead Lake contract was modified to allow payment of indirect costs incurred by the University of Montana, no recommendation (or response) was necessary relating specifically to this contract, as you stated in your report.

However, I would like to respond to your general recommendation (#17) and the preamble paragraph on page 22, with which I concur in part. Although the money DHES pays contractors for administrative services is not as productive from a programmatic standpoint, I consider indirect costs as a legitimate charge in acquiring technical services through certain contractors. I also agree that the indirect cost rate should be specified in contracts, that documentation should be provided by the contractor to support how the rate is calculated, and that program people (DHES project officers) should know beforehand what that rate will be.

But I don't feel it should be left up to program people to determine the appropriate indirect cost rate or to provide the documentation to support how the rate was calculated. I believe that personnel in the Centralized Services Division are much more familiar with indirect cost guidelines and are therefore in a much better position to negotiate indirect costs and to obtain from the prospective contractor documentation to support how the rate will be calculated.

c: Dan Fraser
Steve Pilcher

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